



Okhahlamba Local Municipality
Financial statements
for the year ended 30 June 2015
Auditor General of South Africa
Registered Auditors

Okhahlamba Local Municipality

(Registration number KZN 235)

Financial Statements for the year ended 30 June 2015

General Information

Legal form of entity	Local Municipality
Municipality demarcation code	KZN 235
Capacity	Low
Nature of business and principal activities	Service Delivery: Rates,Waste Management and General services. Main business operations: Local government activities, planning and promotion of the integrated development plan, land, economic and environmental development The mandate of the municipality is in terms of section 152 on the Constitution of South Africa
Grading of local authority	Grade 2
Chief Finance Officer (CFO)	Mr S. B. Ndabandaba B Com Accounting, CPMD
Accounting Officer	Mr S.D. Sibande BAed, BTech Management,CPMD,MBA
Councillors	Mayor - Cllr. DT Sibeko Depty Mayor - Cllr. SZ Khumalo Speaker - Cllr. G Ndaba Member of the Executive Committee - Cllr. BH Zikode Member of the Executive Committee - Cllr. MP Vilakazi Member of the Executive Committee - Cllr. BR Hlongwane Cllr MJ Hadebe Cllr. MC Zondo Cllr. MN Dubazane Cllr. MV Hlatshwayo Cllr. BE Nene Cllr. BL Ngwenya Cllr. KI Hadebe Cllr. TM Ndaba Cllr. K Simelane Cllr. PAM Mfuphi Cllr. BC Mabizela Cllr. SG Sikhakhane Cllr. NR Hlongwane Cllr. TA Ngwenya Cllr. DS Ndaba Cllr MB Dubazane Cllr. ZZ Shange Cllr. MW Hadebe Cllr. WE Goulding Cllr. FE Buthelezi Cllr. KA Mazibuko Cllr.SC Hadebe

Okhahlamba Local Municipality

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Financial Statements for the year ended 30 June 2015

General Information

Registered office	259 Kingsway Road Bergville 3350
Business address	259 Kingsway Road Bergville 3350
Postal address	P. O. Box 71 Bergville 3350
Bankers	First National Bank
Auditors	Auditor General of South Africa Registered Auditors
Preparer	The financial statements were internally compiled by: Ms NP Ntuli Accountant Expenditure & Compliance

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Financial Statements for the year ended 30 June 2015

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The reports and statements set out below comprise the financial statements presented to the provincial legislature:

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Abbreviations

CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
IGRAP	Intpretation of Generally Accepted Accounting Policies

Okhahlamba Local Municipality

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Financial Statements for the year ended 30 June 2015

Approval of Annual Financial Statements

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the unaudited financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the financial statements and was given unrestricted access to all financial records and related data.

The unaudited financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the 12 months to 30 June 2016 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The unaudited financial statements set out on pages 5 to 67, which have been prepared on the going concern basis, were approved by the accounting officer on 28 August 2015 and were signed on its behalf by:

Accounting Officer
SD.Sibande
BAed, B. Tech Management, CPMD, MBA

Date of Signature

31 August 2015

Okhahlamba Local Municipality

(Registration number KZN 235)

Financial Statements for the year ended 30 June 2015

Statement of Financial Position as at 30 June 2015

Figures in Rand	Note(s)	2015	Restated 2014 Restated*
Assets			
Current Assets			
Receivables from exchange transactions	6	1 041 909	2 084 820
Receivables from non-exchange transactions	7	166 210	4 060 736
VAT receivable	8	2 653 512	5 314 158
Consumer debtors	9	18 172 590	13 473 964
Cash and cash equivalents	10	45 227 297	42 798 188
		67 261 518	67 731 866
Non-Current Assets			
Property, plant and equipment	3	195 414 583	174 029 001
Intangible assets	4	628 177	517 406
		196 042 760	174 546 407
Total Assets		263 304 278	242 278 273
Liabilities			
Current Liabilities			
Finance lease obligation	11	4 865 879	3 250 706
Payables from exchange transactions	14	11 981 269	21 943 428
Unspent conditional grants and receipts	12	14 353 925	11 532 296
		31 201 073	36 726 430
Non-Current Liabilities			
Finance lease obligation	11	7 817 081	12 235 352
Retirement benefit obligation	5	1 547 124	1 873 814
Provisions	13	5 112 844	4 399 083
		14 477 049	18 508 249
Total Liabilities		45 678 122	55 234 679
Net Assets		217 626 156	187 043 594
Accumulated surplus		217 626 156	187 043 594

* See Note 34

Okhahlamba Local Municipality

(Registration number KZN 235)

Financial Statements for the year ended 30 June 2015

Statement of Financial Performance

Figures in Rand	Note(s)	2015	Restated 2014 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	17	400 869	354 354
Rendering of services		472 298	183 646
Rental of facilities and equipment	30	72 926	32 513
Agency services		599 834	527 442
Other income	21	1 672 122	655 751
Interest received		3 910 304	3 494 251
Total revenue from exchange transactions		7 128 353	5 247 957
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	16	23 827 121	22 151 702
Property rates - penalties imposed	16	3 426 506	3 075 411
Transfer revenue			
Government grants & subsidies	18	134 651 173	118 675 768
Public contributions and donations	19	319 055	88 731
Fines		591 271	577 407
Subsidies		1 230 705	1 094 863
Total revenue from non-exchange transactions		164 045 831	145 663 882
Total revenue	15	171 174 184	150 911 839
Expenditure			
Employee related costs	23	(41 362 513)	(36 076 804)
Remuneration of councillors	24	(8 182 221)	(7 337 666)
Retirement benefits	5	(454 003)	(154 698)
Depreciation and amortisation	26	(13 568 463)	(9 718 718)
Impairment loss/ Reversal of impairments	27	(662 887)	(211 867)
Finance costs	28	(1 680 088)	(1 121 963)
Debt Impairment	25	(2 079 806)	(5 338 165)
Landfill Rehabilitation		(422 161)	(363 227)
Repairs and maintenance		(2 777 265)	(5 447 246)
General Expenses	22	(60 795 323)	(37 475 212)
Total expenditure		(131 984 730)	(103 245 566)
Operating surplus		39 189 454	47 666 273
Loss on disposal of assets and liabilities		(9 495 433)	(156 850)
Deemed cost of assets		57 071	89 078
Reversal of operating lease		-	1 147 557
Actuarial gains/losses	5	780 694	(89 068)
		(8 657 668)	990 717
Surplus for the period		30 531 786	48 656 990

* See Note 34

Okhahlamba Local Municipality

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Financial Statements for the year ended 30 June 2015

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	136 392 822	136 392 822
Adjustments		
Prior year adjustments	1 993 783	1 993 783
Balance at 01 July 2013 as restated*	138 386 605	138 386 605
Changes in net assets		
Surplus for the period	48 656 989	48 656 989
Total changes	48 656 989	48 656 989
Restated balance	187 043 594	187 043 594
Adjustments		
Prior year adjustments	50 779	50 779
Balance at 01 July 2014	187 094 373	187 094 373
Changes in net assets		
Surplus for the period	30 531 783	30 531 783
Total changes	30 531 783	30 531 783
Balance at 30 June 2015	217 626 156	217 626 156
Note(s)		

* See Note 34

Okhahlamba Local Municipality

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Financial Statements for the year ended 30 June 2015

Cash Flow Statement

Figures in Rand	Note(s)	2015	Restated 2014 Restated*
Cash flows from operating activities			
Receipts			
Cash receipts from ratepayers, and other		26 356 600	19 394 655
Grants		140 791 250	102 763 221
Interest income		3 910 304	3 494 251
		<u>171 058 154</u>	<u>125 652 127</u>
Payments			
Employee costs		(49 544 734)	(43 414 470)
Suppliers		(66 045 002)	(34 558 074)
Finance costs		(1 680 088)	(1 121 963)
		<u>(117 269 824)</u>	<u>(79 094 507)</u>
Net cash flows from operating activities	31	<u>53 788 330</u>	<u>46 557 620</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	3	(45 117 651)	(88 938 826)
Proceeds from disposal of assets	3	210 900	(156 850)
Purchase of other intangible assets	4	(252 481)	(461 015)
Net cash flows from investing activities		<u>(45 159 232)</u>	<u>(89 556 691)</u>
Cash flows from financing activities			
Movement in non - current assets		(3 396 891)	(754 004)
Finance lease payments		(2 803 098)	7 722 363
Net cash flows from financing activities		<u>(6 199 989)</u>	<u>6 968 359</u>
Net increase/(decrease) in cash and cash equivalents		<u>2 429 109</u>	<u>(36 030 712)</u>
Cash and cash equivalents at the beginning of the year		42 798 188	78 828 900
Cash and cash equivalents at the end of the year	10	<u>45 227 297</u>	<u>42 798 188</u>

* See Note 34

Okhahlamba Local Municipality

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Financial Statements for the year ended 30 June 2015

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
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Figures in Rand

Statement of Financial Performance

Revenue

Revenue from exchange transactions

Rendering of services	860 769	(270 000)	590 769	472 298	(118 471)	a.
Rental of facilities and equipment	10 000	88 900	98 900	72 926	(25 974)	
Licences and Permits	263 245	246 000	509 245	599 834	90 589	
Other income	16 534 848	(14 556 379)	1 978 469	2 072 991	94 522	
Interest received - investment	2 000 000	139 682	2 139 682	3 910 304	1 770 622	
Total revenue from exchange transactions	19 668 862	(14 351 797)	5 317 065	7 128 353	1 811 288	

Revenue from non-exchange transactions

Taxation revenue

Property rates	29 388 288	1 366 897	30 755 185	27 253 627	(3 501 558)	
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Transfer revenue

Government grants & subsidies	84 307 000	5 731 550	90 038 550	135 881 878	45 843 328	
Public contributions and donations	-	-	-	319 055	319 055	
Fines	350 000	3 713	353 713	591 271	237 558	

Total revenue from non-exchange transactions	114 045 288	7 102 160	121 147 448	164 045 831	42 898 383	
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Total revenue	133 714 150	(7 249 637)	126 464 513	171 174 184	44 709 671	
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Expenditure

Personnel	(39 011 337)	(3 745 354)	(42 756 691)	(41 362 513)	1 394 178	b.
Remuneration of councillors	(7 154 038)	(1 032 561)	(8 186 599)	(8 182 221)	4 378	
Depreciation and amortisation	(10 105 671)	(3 466 000)	(13 571 671)	(13 568 463)	3 208	
Finance costs	(2 297 929)	(7 279)	(2 305 208)	(1 680 088)	625 120	
Repairs and maintenance	(10 236 289)	3 466 000	(6 770 289)	(2 777 265)	3 993 024	
General Expenses	(46 307 238)	(18 335 535)	(64 642 773)	(64 414 180)	228 593	

Total expenditure	(115 112 502)	(23 120 729)	(138 233 231)	(131 984 730)	6 248 501	
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Operating surplus	18 601 648	(30 370 366)	(11 768 718)	39 189 454	50 958 172	
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Loss on disposal of assets and liabilities	-	-	-	(9 495 433)	(9 495 433)	
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Deemed Costs	-	-	-	57 071	57 071	
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Actuarial gains/losses	-	-	-	780 694	780 694	
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	-	-	-	(8 657 668)	(8 657 668)	
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Surplus after gains/losses	18 601 648	(30 370 366)	(11 768 718)	30 531 786	42 300 504	
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Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	18 601 648	(30 370 366)	(11 768 718)	30 531 786	42 300 504	
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Reconciliation

- Rental of Facilities: The income received is from the rental of community hall.

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Financial Statements for the year ended 30 June 2015

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
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Figures in Rand

- Remmmuneration of councillors: we did the virement due to the late gazette for upper limit the calculation was more on the budget.
- General expenditure: this was created for all expenses excluding those mentioned, the electrification expense is included in the general expense, we moved the amount of R 4 438 669.04 for the Thintwa project and R 5 263 157.90. Electrification of Household Projects to general expenditure because we cannot capitalise these projects.
- Interest Received: The Municipality has had favourable interest rates for its short term deposits, which has allowed the Municipality to generate more interest income than anticipated. In addition to this the Municipality has received interest from the operating account.
- Property Rates: The Municipality bills property rates on a monthly basis.
- Penalties: The actual penalties charged are as a result of property holders not paying rates timeously therefore penalties were charged.
- Subsidies: The Municipality received subsidies from the Department of Arts and Culture and the Department of Cooperative Governance and Traditional Affairs not provided for during the budgeting process.
- Government Grants: The Municipality receives grants in line with the conditions applicable to the grant funding allocated. During the period the Municipality has received funding in line in the the Division or Revenue Act and as communicated by National Treasury and can be budgeted for. Some of the grants received are not gazetted and therefore only received after the first quarter.
- Fines: The large actual amount is as a result of the implementation of IGRAP1 requiring the Municipality to account for traffic fines issued and accrued. The IGRAP1 is effective from 1 July 2013 and is applied prospectively.
- Remuneration of councillors: This is a result of upper limits approved after the budget has been finalised.
- Depreciation and amortisation: An increase being in respect of completed projects from work in progress.
- Finance costs: The municipality has lease machinery, laptops and photocopiers.

Okhahlamba Local Municipality

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Financial Statements for the year ended 30 June 2015

Accounting Policies

1. Presentation of Financial Statements

The financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these financial statements, are disclosed below.

These accounting policies are consistent with the previous period.

1.1 Presentation currency

These financial statements are presented in South African Rand, which is the functional currency of the municipality.

1.2 Going concern assumption

These financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

1.3 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, its deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

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Financial Statements for the year ended 30 June 2015

Accounting Policies

1.3 Property, plant and equipment (continued)

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Average useful life
Buildings	
•	30
Plant and machinery	
•	3 - 15
Motor vehicles	
•	5
Office equipment	
•	3 - 10
IT equipment	
•	5 - 10
Infrastructure	
• Roads - Gravel	3 - 10
• Roads - Tar	10 - 15
• Paving	5 - 30
Community	
• Solid waste disposal	10 - 15
• Community assets	5 - 20
Leased Assets	
•	3 - 5

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Reviewing the useful life of an asset on an annual basis does not require the entity to amend the previous estimate unless expectations differ from the previous estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

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Financial Statements for the year ended 30 June 2015

Accounting Policies

1.4 Intangible assets

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Internally generated goodwill is not recognised as an intangible asset.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Average Useful life
Computer software, other	3-5 years

Intangible assets are derecognised:

- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

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Financial Statements for the year ended 30 June 2015

Accounting Policies

1.4 Intangible assets (continued)

The gain or loss is the difference between the net disposal proceeds, if any, and the carrying amount. It is recognised in surplus or deficit when the asset is derecognised.

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Accounting Policies

1.5 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

A concessionary loan is a loan granted to or received by an entity on terms that are not market related.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Derecognition is the removal of a previously recognised financial asset or financial liability from an entity's statement of financial position.

A derivative is a financial instrument or other contract with all three of the following characteristics:

- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying').
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- It is settled at a future date.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

A financial asset is:

- cash;
- a residual interest of another entity; or
- a contractual right to:
 - receive cash or another financial asset from another entity; or
 - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

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1.5 Financial instruments (continued)

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by an entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

A residual interest is any contract that manifests an interest in the assets of an entity after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:

- equity instruments or similar forms of unitised capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an entity's net assets, either before the contribution occurs or at the time of the contribution; or
- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an entity.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:

- the entity designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Financial instruments at fair value comprise financial assets or financial liabilities that are:

- derivatives;
- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
 - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
 - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
 - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
 - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

Initial recognition

The entity recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

The entity recognises financial assets using trade date accounting.

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1.5 Financial instruments (continued)

Initial measurement of financial assets and financial liabilities

The entity measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The entity measures a financial asset and financial liability initially at its fair value [if subsequently measured at fair value].

The entity first assesses whether the substance of a concessionary loan is in fact a loan. On initial recognition, the entity analyses a concessionary loan into its component parts and accounts for each component separately. The entity accounts for that part of a concessionary loan that is:

- a social benefit in accordance with the Framework for the Preparation and Presentation of Financial Statements, where it is the issuer of the loan; or
- non-exchange revenue, in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions, where it is the recipient of the loan.

Subsequent measurement of financial assets and financial liabilities

The entity measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the entity establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, an municipality calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument or based on any available observable market data.

The fair value of a financial liability with a demand feature is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

Reclassification

The entity does not reclassify a financial instrument while it is issued or held unless it is:

- combined instrument that is required to be measured at fair value; or
- an investment in a residual interest that meets the requirements for reclassification.

Where the entity cannot reliably measure the fair value of an embedded derivative that has been separated from a host contract that is a financial instrument at a subsequent reporting date, it measures the combined instrument at fair value. This requires a reclassification of the instrument from amortised cost or cost to fair value.

If fair value can no longer be measured reliably for an investment in a residual interest measured at fair value, the entity reclassifies the investment from fair value to cost. The carrying amount at the date that fair value is no longer available becomes the cost.

If a reliable measure becomes available for an investment in a residual interest for which a measure was previously not available, and the instrument would have been required to be measured at fair value, the entity reclassifies the instrument from cost to fair value.

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1.5 Financial instruments (continued)

Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

Impairment and uncollectibility of financial assets

The entity assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced directly OR through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly OR by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Financial assets measured at cost:

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

Derecognition

Financial assets

The entity derecognises financial assets using trade date accounting.

The entity derecognises a financial asset only when:

- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the entity transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the entity, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity :
 - derecognise the asset; and
 - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

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1.5 Financial instruments (continued)

If the entity transfers a financial asset in a transfer that qualifies for derecognition in its entirety and retains the right to service the financial asset for a fee, it recognise either a servicing asset or a servicing liability for that servicing contract. If the fee to be received is not expected to compensate the entity adequately for performing the servicing, a servicing liability for the servicing obligation is recognised at its fair value. If the fee to be received is expected to be more than adequate compensation for the servicing, a servicing asset is recognised for the servicing right at an amount determined on the basis of an allocation of the carrying amount of the larger financial asset.

If, as a result of a transfer, a financial asset is derecognised in its entirety but the transfer results in the entity obtaining a new financial asset or assuming a new financial liability, or a servicing liability, the entity recognise the new financial asset, financial liability or servicing liability at fair value.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

If the transferred asset is part of a larger financial asset and the part transferred qualifies for derecognition in its entirety, the previous carrying amount of the larger financial asset is allocated between the part that continues to be recognised and the part that is derecognised, based on the relative fair values of those parts, on the date of the transfer. For this purpose, a retained servicing asset is treated as a part that continues to be recognised. The difference between the carrying amount allocated to the part derecognised and the sum of the consideration received for the part derecognised is recognised in surplus or deficit.

If a transfer does not result in derecognition because the entity has retained substantially all the risks and rewards of ownership of the transferred asset, the entity continue to recognise the transferred asset in its entirety and recognise a financial liability for the consideration received. In subsequent periods, the entity recognises any revenue on the transferred asset and any expense incurred on the financial liability. Neither the asset, and the associated liability nor the revenue, and the associated expenses are offset.

Financial liabilities

The entity removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another entity by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions.

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Accounting Policies

1.5 Financial instruments (continued)

Presentation

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Dividends or similar distributions relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Distributions to holders of residual interests are debited by the entity directly to net assets, net of any related income tax benefit [where applicable]. Transaction costs incurred on residual interests is accounted for as a deduction from net assets, net of any related income tax benefit [where applicable].

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the entity currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the entity does not offset the transferred asset and the associated liability.

1.6 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

Finance leases - lessor

The municipality recognises finance lease receivables as assets on the statement of financial position. Such assets are presented as a receivable at an amount equal to the net investment in the lease.

Finance revenue is recognised based on a pattern reflecting a constant periodic rate of return on the municipality's net investment in the finance lease.

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the .

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

1.7 Impairment of cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

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1.7 Impairment of cash-generating assets (continued)

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:

- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

Criteria developed by the municipality to distinguish cash-generating assets from non-cash-generating assets are as follow:

Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also test a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

Discount rate

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interest and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

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Accounting Policies

1.7 Impairment of cash-generating assets (continued)

Recognition and measurement (individual asset)

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standard of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Cash-generating units

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, the municipality use management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

The carrying amount of a cash-generating unit is determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

In allocating an impairment loss, the entity does not reduce the carrying amount of an asset below the highest of:

- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other cash-generating assets of the unit.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

1.8 Impairment of non-cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Non-cash-generating assets are assets other than cash-generating assets.

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1.8 Impairment of non-cash-generating assets (continued)

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Useful life is either:

- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

Criteria developed by the municipality to distinguish non-cash-generating assets from cash-generating assets are as follow:

Identification

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the entity also test a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of non-cash-generating assets is the present value of the non-cash-generating assets remaining service potential.

The present value of the remaining service potential of a non-cash-generating assets is determined using the following approach:

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Accounting Policies

1.8 Impairment of non-cash-generating assets (continued)

Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standards of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

1.9 Employee benefits

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees.

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party (as defined in the Standard of GRAP on Related Party Disclosures) of the reporting entity, if the proceeds of the policy can be used only to pay or fund employee benefits under a defined benefit plan and are not available to the reporting entity's own creditors (even in liquidation) and cannot be paid to the reporting entity, unless either:

- the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or
- the proceeds are returned to the reporting entity to reimburse it for employee benefits already paid.

Termination benefits are employee benefits payable as a result of either:

- an entity's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

Vested employee benefits are employee benefits that are not conditional on future employment.

Composite social security programmes are established by legislation and operate as multi-employer plans to provide post-employment benefits as well as to provide benefits that are not consideration in exchange for service rendered by employees.

A constructive obligation is an obligation that derives from an entity's actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities and as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

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1.9 Employee benefits (continued)

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:

- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the entity during a reporting period, the entity recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The entity measure the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The entity recognise the expected cost of bonus, incentive and performance related payments when the entity has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which an entity provides post-employment benefits for one or more employees.

Multi-employer plans are defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that pool the assets contributed by various entities that are not under common control and use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.

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1.9 Employee benefits (continued)

Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

When an employee has rendered service to the entity during a reporting period, the entity recognise the contribution payable to a defined contribution plan in exchange for that service:

- as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, an entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset.

Where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the reporting period in which the employees render the related service, they are discounted. The rate used to discount reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the obligation.

Post-employment benefits: Defined benefit plans

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the entity recognise actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

Assets held by a long-term employee benefit fund are assets (other than non-transferable financial instruments issued by the reporting entity) that are held by an entity (a fund) that is legally separate from the reporting entity and exists solely to pay or fund employee benefits and are available to be used only to pay or fund employee benefits, are not available to the reporting entity's own creditors (even in liquidation), and cannot be returned to the reporting entity, unless either:

- the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting entity; or
- the assets are returned to the reporting entity to reimburse it for employee benefits already paid.

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when existing benefits are changed so that the present value of the defined benefit obligation decreases). In measuring its defined benefit liability the entity recognise past service cost as an expense in the reporting period in which the plan is amended.

Plan assets comprise assets held by a long-term employee benefit fund and qualifying insurance policies.

The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

The return on plan assets is interest, dividends or similar distributions and other revenue derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less any costs of administering the plan (other than those included in the actuarial assumptions used to measure the defined benefit obligation) and less any tax payable by the plan itself.

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Accounting Policies

1.9 Employee benefits (continued)

The entity account not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the entity's informal practices. Informal practices give rise to a constructive obligation where the entity has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the entity's informal practices would cause unacceptable damage to its relationship with employees.

The amount recognised as a defined benefit liability is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly;
- plus any liability that may arise as a result of a minimum funding requirement

The amount determined as a defined benefit liability may be negative (an asset). The entity measure the resulting asset at the lower of:

- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

Any adjustments arising from the limit above is recognised in surplus or deficit.

The entity determine the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity such that the amounts recognised in the financial statements do not differ materially from the amounts that would be determined at the reporting date.

The entity recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement rights;
- actuarial gains and losses;
- past service cost;
- the effect of any curtailments or settlements; and
- the effect of applying the limit on a defined benefit asset .

The entity uses the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost. The Projected Unit Credit Method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, an entity shall attribute benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, an entity shall attribute benefit on a straight-line basis from:

- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
- the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. The results of the valuation are updated for any material transactions and other material changes in circumstances up to the reporting date.

The entity recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:

- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

Before determining the effect of a curtailment or settlement, the entity re-measure the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).

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Accounting Policies

1.9 Employee benefits (continued)

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is [OR is not] presented as the net of the amount recognised for a reimbursement.

The entity offsets an asset relating to one plan against a liability relating to another plan when the entity has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan and intends either to settle the obligations on a net basis, or to realise the surplus in one plan and settle its obligation under the other plan simultaneously.

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects:

- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
 - those changes were enacted before the reporting date; or
 - past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

1.10 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

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Accounting Policies

1.10 Provisions and contingencies (continued)

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

A constructive obligation to restructure arises only when an entity:

- has a detailed formal plan for the restructuring, identifying at least:
 - the activity/operating unit or part of a activity/operating unit concerned;
 - the principal locations affected;
 - the location, function, and approximate number of employees who will be compensated for services being terminated;
 - the expenditures that will be undertaken; and
 - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:

- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

No obligation arises as a consequence of the sale or transfer of an operation until the municipality is committed to the sale or transfer, that is, there is a binding arrangement.

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:

- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 33.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

The municipality recognises a provision for financial guarantees and loan commitments when it is probable that an outflow of resources embodying economic benefits and service potential will be required to settle the obligation and a reliable estimate of the obligation can be made.

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgement. Indications that an outflow of resources may be probable are:

- financial difficulty of the debtor;
- defaults or delinquencies in interest and capital repayments by the debtor;
- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms; and
- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

Where a fee is received by the municipality for issuing a financial guarantee and/or where a fee is charged on loan commitments, it is considered in determining the best estimate of the amount required to settle the obligation at reporting date. Where a fee is charged and the municipality considers that an outflow of economic resources is probable, a municipality recognises the obligation at the higher of:

- the amount determined using in the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and

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Accounting Policies

1.10 Provisions and contingencies (continued)

- the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.

Landfill Rehabilitation Provision

The Landfill Rehabilitation Provision is created for the rehabilitation of the current operational sites at the future estimated time of closure.

The value of the provision is based on the expected future cost to rehabilitate of the various site discounted back to the statement of position at the cost of capital, which is currently 9% (2014: 9%).

The municipality has an obligation to rehabilitate these Landfill sites. The cost of such property includes the initial estimate of the cost of rehabilitating the land and restoring the site on which it is located, the obligation which the municipality incurs as a consequence of having used the property during a particular for landfill purposes. The municipality estimates the useful lives and makes assumption to the useful lives of these assets, which influences the provision for future costs.

The asset is measured using the cost model :

- a) subject to (b), changes in the liability are added to, deducted from, the cost of the related assets in the current period;
- b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
- c) if the adjustment results in an addition to the cost of an asset, the economic entity considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount, and any impairment loss is recognised in surplus or deficit.

1.11 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by surveys of work performed.

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Accounting Policies

1.11 Revenue from exchange transactions (continued)

Interest

Revenue arising from the use by others of entity assets yielding interest, or similar distributions is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

1.12 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by an municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arise when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Expenses paid through the tax system are amounts that are available to beneficiaries regardless of whether or not they pay taxes.

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

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Accounting Policies

1.12 Revenue from non-exchange transactions (continued)

Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

Fines

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality.

Where the municipality collects fines in the capacity of an agent, the fine will not be revenue of the collecting entity.

1.13 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

1.14 Borrowing costs

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

Qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use of sale.

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.15 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

1.16 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

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Accounting Policies

1.17 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.18 Irregular expenditure

Irregular expenditure as defined in section 1 of the PFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -

- (a) this Act; or
- (b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
- (c) any provincial legislation providing for procurement procedures in that provincial government.

National Treasury practice note no. 4 of 2008/2009 which was issued in terms of sections 76(1) to 76(4) of the PFMA requires the following (effective from 1 April 2008):

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.19 Budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on a cash basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 2014-07-01 to 2015-06-30.

The budget for the economic entity includes all the entities approved budgets under its control.

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Accounting Policies

1.19 Budget information (continued)

The financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

The Statement of comparative and actual information has been included in the financial statements as the recommended disclosure when the financial statements and the budget are on the same basis of accounting as determined by National Treasury.

Comparative information is not required.

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Accounting Policies

1.20 Related parties

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the national sphere of government are considered to be related parties.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed.

Notes to the Financial Statements

Figures in Rand	2015	Restated 2014
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2. New standards and interpretations

2.1 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2015 or later periods:

GRAP 18: Segment Reporting

Segments are identified by the way in which information is reported to management, both for purposes of assessing performance and making decisions about how future resources will be allocated to the various activities undertaken by the municipality. The major classifications of activities identified in budget documentation will usually reflect the segments for which an entity reports information to management.

Segment information is either presented based on service or geographical segments. Service segments relate to a distinguishable component of an entity that provides specific outputs or achieves particular operating objectives that are in line with the municipality's overall mission. Geographical segments relate to specific outputs generated, or particular objectives achieved, by an entity within a particular region.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

Directive 2 - Transitional provisions for public entities, municipal entities and constitutional institutions, states that no comparative segment information need to be presented on initial adoption of this Standard.

Directive 3 - Transitional provisions for high capacity municipalities states that no comparative segment information need to be presented on initial adoption of the Standard. Where items have not been recognised as a result of transitional provisions under the Standard of GRAP on Property, Plant and Equipment, recognition requirements of this Standard would not apply to such items until the transitional provision in that Standard expires.

Directive 4 – Transitional provisions for medium and low capacity municipalities states that no comparative segment information need to be presented on initial adoption of the Standard. Where items have not been recognised as a result of transitional provisions under the Standard of GRAP on Property, Plant and Equipment and the Standard of GRAP on Agriculture, the recognition requirements of the Standard would not apply to such items until the transitional provision in that standard expires.

The effective date of the standard is for years beginning on or after 01 April 2015.

The municipality expects to adopt the standard for the first time in the 2016 financial statements.

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Financial Statements for the year ended 30 June 2015

Notes to the Financial Statements

2. New standards and interpretations (continued)

It is unlikely that the standard will have a material impact on the municipality's financial statements.

GRAP 20: Related parties

The objective of this standard is to ensure that a reporting entity's financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and surplus or deficit may have been affected by the existence of related parties and by transactions and outstanding balances with such parties.

An entity that prepares and presents financial statements under the accrual basis of accounting (in this standard referred to as the reporting entity) shall apply this standard in:

- identifying related party relationships and transactions;
- identifying outstanding balances, including commitments, between an entity and its related parties;
- identifying the circumstances in which disclosure of the items in (a) and (b) is required; and
- determining the disclosures to be made about those items.

This standard requires disclosure of related party relationships, transactions and outstanding balances, including commitments, in the consolidated and separate financial statements of the reporting entity in accordance with the Standard of GRAP on Consolidated and Separate Financial Statements. This standard also applies to individual financial statements.

Disclosure of related party transactions, outstanding balances, including commitments, and relationships with related parties may affect users' assessments of the financial position and performance of the reporting entity and its ability to deliver agreed services, including assessments of the risks and opportunities facing the entity. This disclosure also ensures that the reporting entity is transparent about its dealings with related parties.

The standard states that a related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control. As a minimum, the following are regarded as related parties of the reporting entity:

- A person or a close member of that person's family is related to the reporting entity if that person:
 - has control or joint control over the reporting entity;
 - has significant influence over the reporting entity;
 - is a member of the management of the entity or its controlling entity.
- An entity is related to the reporting entity if any of the following conditions apply:
 - the entity is a member of the same economic entity (which means that each controlling entity, controlled entity and fellow controlled entity is related to the others);
 - one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of an economic entity of which the other entity is a member);
 - both entities are joint ventures of the same third party;
 - one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - the entity is a post-employment benefit plan for the benefit of employees of either the entity or an entity related to the entity. If the reporting entity is itself such a plan, the sponsoring employers are related to the entity;
 - the entity is controlled or jointly controlled by a person identified in (a); and
 - a person identified in (a)(i) has significant influence over that entity or is a member of the management of that entity (or its controlling entity).

The standard furthermore states that related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

The standard elaborates on the definitions and identification of:

- Close member of the family of a person;
- Management;
- Related parties;
- Remuneration; and
- Significant influence

The standard sets out the requirements, inter alia, for the disclosure of:

- Control;
- Related party transactions; and
- Remuneration of management

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Notes to the Financial Statements

2. New standards and interpretations (continued)

The effective date of the standard is for years beginning on or after 01 April 2016.

The municipality expects to adopt the standard for the first time in the 2017 financial statements.

It is unlikely that the standard will have a material impact on the municipality's financial statements.

2.2 Standards and interpretations not yet effective or relevant

The following standards and interpretations have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2015 or later periods but are not relevant to its operations:

3. Property, plant and equipment

	2015			2014		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	3 562 868	-	3 562 868	3 562 868	-	3 562 868
Buildings	64 516 584	(12 803 048)	51 713 536	57 422 077	(10 036 667)	47 385 410
Plant and machinery	1 510 071	(439 252)	1 070 819	1 632 158	(837 297)	794 861
Building under construction	24 838 957	-	24 838 957	18 352 884	-	18 352 884
Motor vehicles	4 684 559	(844 583)	3 839 976	5 181 321	(1 321 888)	3 859 433
Office equipment	2 883 366	(1 141 395)	1 741 971	3 006 735	(1 087 754)	1 918 981
IT equipment	1 731 746	(824 124)	907 622	2 579 868	(1 632 674)	947 194
Infrastructure - Asset under construction	24 866 574	-	24 866 574	19 069 795	-	19 069 795
Infrastructure	93 361 942	(25 395 849)	67 966 093	79 985 842	(19 212 276)	60 773 566
Community	4 945 538	(2 223 330)	2 722 208	3 741 995	(1 537 720)	2 204 275
Leased Assets	23 155 189	(10 971 230)	12 183 959	24 225 009	(9 065 275)	15 159 734
Total	250 057 394	(54 642 811)	195 414 583	218 760 552	(44 731 551)	174 029 001

Okhahlamba Local Municipality

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Financial Statements for the year ended 30 June 2015

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3. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2015

	Opening balance	Additions	Additions assets under constructions	Disposals	Newly identified Assets	Transfers	Other changes, movements	Depreciation	Impairment loss	Total
Land	3 562 868	-	-	-	-	-	-	-	-	3 562 868
Buildings	47 385 409	350 689	-	(7 165)	-	6 758 055	-	(2 758 602)	(14 850)	51 713 536
Plant and machinery	794 861	508 241	-	(174 278)	5 613	141 200	-	(176 237)	(28 581)	1 070 819
Building under construction	18 352 884	-	13 450 005	-	-	(6 963 932)	-	-	-	24 838 957
Motor vehicles	3 859 433	910 094	-	(372 892)	-	-	-	(556 659)	-	3 839 976
Office equipment	1 918 981	502 512	-	(291 075)	15 809	-	6 831	(409 554)	(1 533)	1 741 971
IT equipment	947 194	467 935	-	(305 613)	35 648	-	-	(237 510)	(33)	907 621
Infrastructure - Asset under construction	19 069 795	-	27 164 919	(7 967 890)	-	(13 400 250)	-	-	-	24 866 574
Infrastructure	60 773 566	-	-	-	-	13 376 100	-	(5 565 683)	(617 890)	67 966 093
Community	2 204 275	1 244 916	-	(127 318)	-	88 828	-	(688 493)	-	2 722 208
Leased Assets	15 159 735	518 340	-	(460 102)	-	-	-	(3 034 014)	-	12 183 959
	174 029 001	4 502 727	40 614 924	(9 706 333)	57 070	-	6 831	(13 426 752)	(662 887)	195 414 582

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Financial Statements for the year ended 30 June 2015

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3. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2014

	Opening balance	Additions	Additions assets under constructions	Disposals	Newly identified assets	Transfers	Donated Assets	Other changes, movements	Depreciation	Impairment loss	Total
Land	2 312 868	-	-	(1 000)	-	1 250 000	-	1 000	-	-	3 562 868
Buildings	25 126 140	-	-	-	-	23 853 622	-	57 310	(1 647 263)	(4 400)	47 385 409
Plant and machinery	716 958	150 349	-	-	26 343	31 350	34 295	(11 921)	(152 484)	(29)	794 895
Building under construction	3 799 744	-	45 972 043	-	-	(27 062 410)	-	(4 356 493)	-	-	18 352 884
Motor vehicles	491 019	3 774 466	-	(25 361)	-	-	-	-	(380 691)	-	3 859 433
Office equipment	1 373 490	557 536	-	-	72 923	175 000	53 974	3 975	(317 043)	(874)	1 918 905
IT equipment	888 109	326 846	-	-	11 119	-	462	-	(273 115)	(6 227)	947 194
Infrastructure - Asset under construction	5 298 925	-	27 266 738	-	-	(13 748 077)	-	252 209	-	-	19 069 785
Infrastructure	49 067 181	-	-	-	-	15 441 045	-	(49 248)	(3 485 075)	(200 337)	60 773 576
Community	806 973	1 363 810	-	-	-	59 470	-	355 503	(381 481)	-	2 204 275
Leased Assets	8 588 188	9 527 038	-	-	-	-	-	-	(2 955 491)	-	15 159 735
	98 469 595	15 700 045	73 238 781	(26 361)	110 385	-	88 731	(3 747 665)	(9 592 643)	(211 867)	174 029 000

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Okhahlamba Local Municipality

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4. Intangible assets

	2015			2014		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software, other	1 162 965	(534 788)	628 177	910 483	(393 077)	517 406

Reconciliation of intangible assets - 2015

	Opening balance	Additions	Amortisation	Total
Computer software, other	517 406	252 481	(141 710)	628 177

Reconciliation of intangible assets - 2014

	Opening balance	Additions	Amortisation	Total
Computer software, other	56 391	587 089	(126 074)	517 406

Okhahlamba Local Municipality

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Financial Statements for the year ended 30 June 2015

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Figures in Rand	2015	Restated 2014
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4. Intangible assets (continued)

Deemed cost

Aggregate of items valued using deemed cost	35 763	89 078
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Deemed cost was determined using fair value

Okhahlamba Local Municipality

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Financial Statements for the year ended 30 June 2015

Notes to the Financial Statements

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5. Retirement benefit obligations

Defined benefit plan

Post retirement medical aid plan

The municipality operates an accredited medical aid scheme. The post retirement medical aid plan, to which 2015: 1 member belongs, consists of the Key Health Medical Scheme. Pensioners continue on the option they belong to on the day of their retirement.

The independent valuers, Alexander Forbes (Pty) Ltd, carried out a statutory valuation on 30 June 2015.

The principal actuarial assumptions used were as follows:

Discount rate per annum	8.20 %	8.10 %
Health care cost inflation rate	8.10 %	8.20 %
Benchmark inflation (equal to salary inflation)	7.60 %	7.70 %

The amounts recognised in the statement of financial position were

Post retirement medical obligation	190 134	187 824
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Reconciliation of the movement in the liability

Opening balance	187 824	185 058
Interest cost	14 256	13 235
Expected employer benefit payments	(22 252)	(20 537)
Actuarial (gains) / loss	10 306	10 068
	190 134	187 824

Net expense recognised in the statement of financial performance

Interest cost	14 256	13 235
Expected employer benefit payments	(22 252)	(20 537)
Actuarial (gains) / losses	10 306	10 068
	2 310	2 766

Post retirement pension plan

The Municipality's personnel are members of one of the Natal Joint Municipal Pension (NJMPF) retirement funds, namely the Superannuation, Retirement and Provident Funds. As the aforementioned funds are multi- employer funds, the allocation of any surplus/ deficit to individual municipalities cannot be determined.

Furthermore disclosure of further details such as actuarial assumptions, cannot be attributed to any specific municipality and is of no relevance to the users of the municipality's financial statements. As the required disclosure information cannot be obtained the funds are all treated as defined contribution plans.

An independent valuer carries out statutory valuation of the NJMPF on a triennial basis and an interim valuation on an annual basis. The 2014 interim valuations have not been released.

Superannuation funds

The latest statutory valuation of the Superannuation Fund (defined benefit) as at 31 March 2014 concluded that:

The Fund's liabilities for service to the valuation date was 100% (2013: 97.9 %) funded on the discounted cash flow method

The Fund's financial position has improved from the previous statutory valuation.

At the valuation date:

The memorandum account in respect of pensioners was fully funded.

Okhahlamba Local Municipality

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5. Retirement benefit obligations (continued)

There was a no deficit in respect of active members. A surcharge of 9.5% of pensionable salaries is payable for a period of 8 years with effect from 01 August 2012 to meet the deficit.

The contribution rate being paid at the previous statutory valuation date was not sufficient to cover the contribution rate required for future service, showing a shortfall of 3.63% of pensionable salaries. The recommendation is to increase the employer's basic contribution from 18% to 21.63% (18.00% plus 3.63% with effect from 1 August 2012).

Retirement fund

The latest statutory valuation of the Retirement Fund (defined benefit) as at 31 March 2014 reflected:

The memorandum account in respect of pensioners was fully funded

Based on the valuation assumptions applied in 2000, the Fund was fully funded, however based on revised assumptions the Funds liabilities for the contributory members exceeded the value of the assets and an extension of the surcharge for another 5 years would be necessary to return the funding level to 100%.

The statutory actuarial valuation carried out on the retirement fund as at 31 March 2014 reflected:

The Fund is 96.2% (2013: 93.1%) funded as at the valuation date at the overall level. The pensioner liabilities are fully funded and the liabilities in respect of active members are 91.7% funded. The Funds financial position has improved from the previous statutory valuation.

At the valuation date:

The memorandum account in respect of pensioners was fully funded.

There was a deficit in respect of active members. To meet the deficit, it is recommended that the surcharge of 17.5% to eliminate the deficit in the fund by 2020, the repayment period be extended from 5 to 8 years at which time the deficit is expected to be fully funded.

The required contribution rate for the future service benefits for active members exceeded the contribution rate payable by 0.50% (2013:0.27%) of pensionable salaries.

Provident fund

The latest statutory valuation of the Provident Fund as at 31 March 2009 and the interim valuation as at 31 March 2013 revealed that the fund was in a sound financial position.

Long service awards

The independent valuers, PriceWaterScoopers (PWC), carried out a statutory valuation on the long service leave benefit on 30 June 2015. This is the third year that this actuarial valuation has been performed in accordance with Council Resolution in August 2012.

The principal actuarial assumptions used were as follows:

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Financial Statements for the year ended 30 June 2015

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5. Retirement benefit obligations (continued)

Discount rate per annum	8.50 %	8.40 %
Inflation rate per annum	6.20 %	6.20 %
Salary increase rate per annum	8.20 %	8.20 %
Active members	122	120
Salary weighted average age		- years
Salary weighted past service		7.6 years

The amounts recognised in the statement of financial position

Post retirement gratuity obligation	1 356 990	1 685 990
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Reconciliation in the movement of liability

Opening balance	1 685 990	1 444 990
Past service cost	-	-
Interest cost	143 000	132 000
Expected employer benefit payments/Current service cost	319 000	192 000
Actuarial (gains) / losses	(791 000)	79 000
less municipality paid benefits	-	(162 000)
	1 356 990	1 685 990

Net expense recognised in the statement of financial performance

Past service cost	-	-
Interest cost	143 000	132 000
Expected employer benefit payments/Current service costs	319 000	30 000
Actuarial (gains) / losses	(791 000)	79 000
	(329 000)	241 000

In conclusion

Statement of financial position obligation for

Post - employer medical benefits	190 134	187 824
Long service awards	1 356 990	1 685 990
	1 547 124	1 873 814

Statement of financial performance obligation for

Post - employer medical benefits	2 310	2 766
Long service awards	329 000	241 000
	331 310	243 766

Post-employment medical benefit (gains) and losses

Post - employer medical benefits (gains) and losses	10 306	10 068
Long service award loss	791 000	79 000
	801 306	89 068

6. Receivables from exchange transactions

Sundry services (sundry debtors)	67 584	39 422
Accrued Interest	974 325	33 686
Nquthu Debtor	-	179 503
Sale of assets receivable	-	39 900
Department of Economic Development & Tourism Receivable	-	1 792 309
	1 041 909	2 084 820

Okhahlamba Local Municipality

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Notes to the Financial Statements

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7. Receivables from non-exchange transactions

Fines	166 210	43 880
Other receivables from non-exchange revenue	-	4 016 856
	166 210	4 060 736

Reconciliation of provision for impairment of receivables from non-exchange transactions

Receivables - Fines	378 200	465 270
Provision for impairment - Fines	(211 990)	(421 390)
	166 210	43 880

8. VAT receivable

VAT	2 653 512	5 314 158
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9. Consumer debtors

Gross balances

Rates	21 319 965	17 749 896
Refuse	463 815	510 902
Sundry debtors	5 762 455	2 973 596
	27 546 235	21 234 394

Gross Balances	Organ of State	Commercial	Households	Other	Total
Current (0-30) days	328 374	235 728	512 331	954 285	2 030 718
31-60 days	295 869	78 874	305 027	545 731	1 225 501
61-90 days	286 138	54 380	285 560	481 034	1 107 112
91-120 days	288 981	45 955	257 825	465 914	1 058 675
121-365 days	2 309 028	266 958	2 059 892	3 497 411	8 133 289
> 365	2 786 581	585 305	3 973 096	6 645 958	13 990 940
	6 294 971	1 267 200	7 393 731	12 590 333	27 546 235

Less: Allowance for impairment

Rates	(8 428 532)	(6 586 819)
Refuse	498	(158 329)
Sundry	(945 611)	(1 015 282)
	(9 373 645)	(7 760 430)

Net balance

Rates	12 891 433	11 163 077
Refuse	464 313	352 573
Sundry	4 816 844	1 958 314
	18 172 590	13 473 964

Included in above is receivables from non-exchange transactions (taxes and transfers)

Rates	12 891 433	11 163 077
Interest on arrear debtors and other	5 281 157	2 310 887
	18 172 590	13 473 964

Net balance

18 172 590	13 473 964
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Okhahlamba Local Municipality

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Financial Statements for the year ended 30 June 2015

Notes to the Financial Statements

Figures in Rand 2015 Restated 2014

9. Consumer debtors (continued)

Rates

Current (0 -30 days)	2 148 446	2 641 665
31 - 60 days	884 141	(47 739)
61 - 90 days	792 830	461 557
91 - 120 days	752 711	765 721
121 - 365 days	5 843 213	6 717 128
> 365 days	10 898 624	7 211 564
	21 319 965	17 749 896

Refuse

Current (0 -30 days)	40 972	49 526
31 - 60 days	22 400	(20 804)
61 - 90 days	12 228	6 260
91 - 120 days	9 654	10 713
121 - 365 days	62 559	80 495
> 365 days	316 004	384 712
	463 817	510 902

Sundry

Current (0 -30 days)	327 783	(9 186)
31 - 60 days	318 960	265 442
61 - 90 days	302 054	236 275
91 - 120 days	296 310	523 197
121 - 365 days	2 227 520	445 555
> 365 days	2 289 828	1 512 313
	5 762 455	2 973 596

Reconciliation of allowance for impairment

Balance at beginning of the year	(7 760 430)	(11 517 365)
Contributions to allowance	(1 867 816)	(4 916 775)
Debt impairment written off against allowance	254 601	8 673 710
	(9 373 645)	(7 760 430)

Consumer debtors past due but not impaired

Consumer debtors which are less than 3 months past due are not considered to be impaired. At 30 June 2015, R 311 517 (2014: R 748 949) were past due but not impaired.

The ageing of amounts past due but not impaired is as follows:

Amounts not past due or impaired	7 537 849	2 768 504
Amounts past due not impaired	311 517	748 949
Amounts past due and impaired	19 696 869	17 716 941
	27 546 235	21 234 394

Consumer debtors impaired

As of 30 June 2015, consumer debtors of R 19 696 869 (2014: R 17 716 941) were impaired and provided for.

The amount of the provision was R 9 376 360 as of 30 June 2015 (2014: R 7 760 430).

10. Cash and cash equivalents

Cash and cash equivalents consist of:

Okhahlamba Local Municipality

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Notes to the Financial Statements

Figures in Rand 2015 Restated 2014

10. Cash and cash equivalents (continued)

Cash on hand	5 095	2 096
Bank balances	1 060 548	6 223 531
Short-term deposits	44 161 653	36 572 561
	45 227 296	42 798 188

The municipality had the following bank accounts

Account number / description	Bank statement balances		Cash book balances	
	30 June 2015	30 June 2014	30 June 2015	30 June 2014
First National Bank:	1 060 548	6 223 531	1 060 548	6 223 531
51660362710 Cheque Account				
First National Bank:	-	46 527	-	46 527
62241428798 : Money Market				
First National Bank:	-	29 120	-	29 120
62051600932 : Call Account				
First National Bank:	-	544 574	-	544 574
62053113230 : Call Account				
First National Bank:	-	906 953	-	906 953
61166894638 : Call Account				
First National Bank:	-	1 466 117	-	1 466 117
62228422060 : Money Market				
First National Bank	-	8 678 892	-	8 678 892
74386656746 : Fixed Deposits				
First National Bank	-	13 043 467	-	13 043 467
74386660490: Fixed Deposits				
First National Bank:	736 925	-	-	736 925
74484333254:Fixed Deposit				
First National Bank:	20 931 580	-	20 931 580	-
74484485427 Fixed Deposit				
Absa Bank: 2074514859: Fixed Deposit	10 000 000	-	10 000 000	-
Investec : 1100463208500	12 493 148	11 856 911	12 493 148	11 856 911
Total	45 222 201	42 796 092	45 222 201	42 796 092

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Notes to the Financial Statements

Figures in Rand	2015	Restated 2014
11. Finance lease obligation		
Minimum lease payments due		
- within one year	4 864 060	4 821 627
- in second to fifth year inclusive	10 592 977	14 775 933
	15 457 037	19 597 560
less: future finance charges	(2 774 045)	(4 150 970)
Present value of minimum lease payments	12 682 992	15 446 590
Present value of minimum lease payments due		
- within one year	4 865 879	3 250 706
- in second to fifth year inclusive	7 817 113	12 195 884
	12 682 992	15 446 590
Non-current liabilities	7 817 081	12 235 352
Current liabilities	4 865 879	3 250 706
	12 682 960	15 486 058

The average lease term was 3-5 years and the average effective borrowing rate was 9% to 15% (2014: 9% to 15 %).

Interest rates are linked to prime at the contract date as non fixed depending on the circumstances. All leases have fixed repayments and no arrangements have been entered into for contingent rent.

The municipality's obligations under finance leases are secured by the lessor's charge over the leased assets. The assets leased include vehicles and photocopiers.

12. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts

LG SETA Learnership	-	294 300
Housing projects	10 086 543	10 136 551
Gijima - KZN Baseline study grant	46 438	46 438
Disaster relief grant	1 612 000	57 833
Department of sports grant	-	168 807
MPCC grant	-	7 882
Pound grant	-	1 371
Spatial planning	7 088	7 088
Small Town Rehab	2 601 856	812 026
	14 353 925	11 532 296

See note 18 for reconciliation of grants from National/Provincial Government.

Okhahlamba Local Municipality

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Financial Statements for the year ended 30 June 2015

Notes to the Financial Statements

Figures in Rand	2015	Restated 2014
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13. Provisions

Reconciliation of provisions - 2015

	Opening Balance	Movements	Total
Environmental rehabilitation	4 399 083	713 761	5 112 844

Reconciliation of provisions - 2014

	Opening Balance	Movement	Total
Environmental rehabilitation	2 637 020	1 762 063	4 399 083

In terms of Grap 19, provisions should be evaluated at each year-end to reflect the best estimate at the date of the provision. (2014-due to the latest environmental assesment valuation report. the discounting rate for 2015 is 9% (2014-9%) the net results of the re-estimation had the following effect on the current year amount

Increase in the provision for landfill site rehabilitation R5 112 844 (2014-R4 399 083)

Increase in the cost of property, plant and equipment R3 729 149.72 (2014-R3 437 550.12).

Employee benefit cost provision

A brief description of the nature of the obligation and the expected timing of any resulting outflows of economic benefits or service potential.

An indication of the uncertainties about the amount or timing of those outflows. Where necessary to provide adequate information, an entity shall disclose the major assumptions made concerning future events, as addressed in paragraph .61.

The amount of any expected reimbursement, stating the amount of any asset that has been recognised for that expected reimbursement.

14. Payables from exchange transactions

Trade payables	4 609 142	6 044 784
Payments received in advanced	486 482	967 639
Retention	4 081 430	2 760 589
Salary control	22 629	74 890
Leave pay accrual	2 711 672	2 658 319
Unallocated Receipts	17 428	488 920
Unallocated Deposits	-	129 341
Building purchases payable	-	7 521 778
Sundry Payables	52 486	1 297 168
	11 981 269	21 943 428

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15. Revenue

Rendering of services	472 298	183 646
Service charges	400 869	354 354
Rental of facilities and equipment	72 926	32 513
Agency services	599 834	527 442
Other income - (rollup)	1 672 122	655 751
Interest received - investment	3 910 304	3 494 251
Property rates	23 827 121	22 151 702
Property rates - penalties imposed	3 426 506	3 075 411
Government grants & subsidies	134 651 173	118 675 768
Public contributions and donations	319 055	88 731
Fines, Penalties and Forfeits	591 271	577 407
Subsidies	1 230 705	1 094 863
	171 174 184	150 911 839

The amount included in revenue arising from exchanges of goods or services are as follows:

Service charges	400 869	354 354
Rendering of services	472 298	183 646
Rental of facilities and equipment	72 926	32 513
Agency services	599 834	527 442
Other income - (rollup)	1 672 122	655 751
Interest received - investment	3 910 304	3 494 251
	7 128 353	5 247 957

The amount included in revenue arising from non-exchange transactions is as follows:

Taxation revenue

Property rates	23 827 121	22 151 702
Property rates - penalties imposed	3 426 506	3 075 411

Transfer revenue

Government grants & subsidies	134 651 173	118 675 768
Public contributions and donations	319 055	88 731
Fines, Penalties and Forfeits	591 271	577 407
Subsidies	1 230 705	1 094 863
	164 045 831	145 663 882

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16. Property rates

Rates received

Residential	7 408 556	7 029 020
Commercial	2 866 451	2 702 654
State	3 994 690	3 766 422
Municipal	333 088	314 054
Small holdings and farms	5 231 081	4 902 270
Communal Land	2 060 100	1 942 380
Other	9 724 495	9 164 231
Less: Income forgone	(7 791 340)	(7 669 329)
	23 827 121	22 151 702
Property rates - penalties imposed	3 426 506	3 075 411
	27 253 627	25 227 113

Valuations

Residential	1 058 364 000	1 058 364 000
Commercial	409 493 000	409 493 000
State	570 670 012	570 670 012
Municipal	47 584 000	47 584 000
Small holdings and farms	2 989 189 000	2 989 189 000
Communal Land	294 300 000	294 300 000
Other	1 732 586 100	1 732 586 100
	7 102 186 112	7 102 186 112

Valuations on land and buildings are performed every 5 years. The last general valuation came into effect on 1 July 2013. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions. There were no interim valuations for 2014/15 financial year.

Assessments rates are determined by applying the following cents in the rand on the market valuation:

Agriculture properties used for agriculture purposes	0.00175	0.00164
Business and commercial properties	0.00700	0.00660
Industrial properties	0.00700	0.00660
Municipal properties, land reform, informal settlements, public worship	0.00700	0.00660
Public service infrastructure and Public benefit organisations	0.00175	0.00164
Residential Properties	0.00700	0.00660
Vacant Land	0.00700	-
Municipal properties binded by lease agreement	0.00700	-

Rebates granted to:

Agricultural and Agricultural small holdings	20 %	30 %
Place of Worship, Communal Land and Municipal Property	100 %	100 %
Private Developed Estates	20 %	30 %
Public Service Infrastructure	30 %	30 %
Residential small holding and rural residential	20 %	30 %

The first R15 000 of the valuation of residential properties are exempt from the calculation of rates. Pulic service infrastructure are permitted a 30% impermissable exemption.

An additional rebate is allowed on the next R65,000 of all properties within a residential category. A 20% rebate is allowed for other properties based on the category of the property.

Pensioners receive a 50% rebate on application. A 5% discount is applicable to rates settled in advance for a specific financial year.

Rates are levied on an annual basis over 12 monthly installments with the final date for payment being 31 July 2015.

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16. Property rates (continued)

Interest at a fixed rate of 18% per annum (2014: 18 %) is levied on the rates outstanding one months after due date.

17. Service charges

Refuse removal	400 869	354 354
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18. Government grants and subsidies

Operating grants

Equitable share	79 269 000	69 128 921
FMG Grant	1 800 000	1 650 000
Spatial Planning Grant	-	25 760
MPCC Grant	7 882	144 696
MSIG	934 000	890 000
Refuse Disposal Grant	-	1 058 671
Pound Grant	1 371	142 384
INEP Grant	6 000 000	-
VAT Recovery	3 054 828	2 630 317
Disaster Relief Grant	57 833	1 802 967
Department of sports Grant	168 807	131 193
EPWP	1 159 000	1 000 000
LG SETA Will	588 600	-
LG SETA Grant Learnerships	10 615 250	-
Housing Grant	50 008	-
	103 706 579	78 604 909

Capital grants

MIG	23 482 172	22 019 682
Small Town Rehabilitation	7 462 422	18 051 177
	30 944 594	40 070 859
	134 651 173	118 675 768

Equitable Share

Current-year receipts	79 269 000	69 128 921
Conditions met - transferred to revenue	(79 269 000)	(69 128 921)
	-	-

Conditions met (see note 12).

In terms of the Constitution, this grant is used to offset operational expenses.

Finance Management Grant

Current-year receipts	1 800 000	1 650 000
Conditions met - transferred to revenue	(1 800 000)	(1 650 000)
	-	-

Conditions still to be met - remain liabilities (see note 12).

This grant was used for implementation of MFMA, finance reforms and payments of intern's salaries. No funds were withheld.

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18. Government grants and subsidies (continued)

Multi purpose community centre grant (MPCC)

Balance unspent at beginning of the period	7 882	152 577
Conditions met - transferred to revenue	(7 882)	(144 695)
	<u>-</u>	<u>7 882</u>

Conditions still to be met - remain liabilities (see note 12).

The grant was used to pay for the security and maintenance expenses of the multi purpose community centre. No funds were withheld.

Gijima KZN - Baseline study grant

Balance unspent at beginning of the period	<u>46 438</u>	<u>46 438</u>
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Conditions still to be met - remain liabilities (see note 12).

This grant is used for the local economic development study. No funds were withheld.

Municipal systems Infrastructure grant

Balance unspent at beginning of the period	-	-
Current-year receipts	934 000	890 000
Conditions met - transferred to revenue	(934 000)	(890 000)
	<u>-</u>	<u>-</u>

Conditions met (see note 12).

This grant was used for the the implementation of IT systems. No funds were withheld.

Spatial planning grant

Balance unspent at beginning of the period	7 088	32 848
Conditions met - transferred to revenue	-	(25 760)
	<u>7 088</u>	<u>7 088</u>

Conditions still to be met - remain liabilities (see note 12).

This grant was used for the development and improvement of the Municipality's spatial planning. No funds were withheld.

Municipal infrastructure grant

Balance unspent at beginning of the period	-	-
Current-year receipts	26 537 000	24 650 000
Conditions met - transferred to revenue	(23 482 172)	(22 019 683)
VAT Recovery	(3 054 828)	(2 630 317)
	<u>-</u>	<u>-</u>

Conditions were met - (see note 12).

The grant is for the implementation of projects approved by MIG.

No funds were withheld.

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18. Government grants and subsidies (continued)

Refuse disposal grant

Balance unspent at beginning of the period	-	1 058 671
Conditions met - transferred to revenue	-	(1 058 671)
	-	-

Conditions met (see note 12).

This grant is for the feasibility study for the refuse disposal site. No funds were withheld.

Small town rehabilitation grant

Balance unspent at beginning of the period	812 026	9 846 347
Current-year receipts	12 865 000	5 000 000
Retention written back	404 108	-
Conditions met - transferred to revenue	(7 462 422)	(18 051 177)
Re-instatement of debtor	(4 016 856)	4 016 856
	2 601 856	812 026

Conditions still to be met - remain liabilities (see note 12).

This grant is for the rehabilitation of Okhahlamba municipal area. Debtor amount of R8 422 194 was previously overstated for 2013/14, and restated to R4 016 856.39. No funds were withheld.

Pound grant

Balance unspent at beginning of the period	1 371	143 755
Current-year receipts	-	-
Conditions met - transferred to revenue	(1 371)	(142 384)
	-	1 371

Conditions met - (see note 12).

This grant is for the creation and running of a pound. No funds were withheld.

Disaster relief grant

Balance unspent at beginning of the period	57 833	1 860 800
Current-year receipts	1 612 000	-
Conditions met - transferred to revenue	(57 833)	(1 802 967)
	1 612 000	57 833

Conditions still to be met - remain liabilities (see note 12).

This grant is for the construction of Ngubane gravel road and storm water management structures. No funds were withheld.

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18. Government grants and subsidies (continued)

Department of sports and recreation grant

Balance unspent at beginning of the period	168 807	150 000
Current-year receipts	-	150 000
Conditions met - transferred to revenue	(168 807)	(131 193)
	-	168 807

Conditions met - (see note 12).

This grant is used to cover expenses for security and caretaker at Dukuza sportfield. No funds were withheld.

NER - electrification of households

Balance unspent at beginning of the period	-	3 571 301
Current-year receipts	6 000 000	-
Conditions met - transferred to revenue	(6 000 000)	-
Adjustment funds withheld	-	(3 571 301)
	-	-

Conditions met - (see note 12).

This grant is for electrification of households. No funds were withheld.

Housing projects

Balance unspent at beginning of the period	10 136 551	10 136 551
Conditions met - transferred to revenue	(50 008)	-
	10 086 543	10 136 551

Conditions still to be met - remain liabilities (see note 12).

The grant is for the construction of housing. No funds were withheld. The Housing Projects grant revenue is currently part of the forensic investigation, which is ongoing, thus the using of these funds were obtained via Councillors resolution. The projects identified for funding have already been paid for by the Department of Human Settlements.

Local Government - SETA WIL

Balance unspent at beginning of the period	294 300	-
Current-year receipts	294 300	294 300
Conditions met - transferred to revenue	(588 600)	-
	-	294 300

Conditions met (see note 12).

This grant is provided for the work integrated learning programme in implementing the National skills development strategy for the provision of experiential training to further education and training graduates. No funds withheld.

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18. Government grants and subsidies (continued)

Expanded public works programme

Balance unspent at beginning of the period	-	-
Current-year receipts	1 159 000	1 000 000
Conditions met - transferred to revenue	(1 159 000)	(1 000 000)
	-	-

Conditions met - (see note 12).

This grant is for the salaries of the contract employees for Extended Public Works Programme. No funds were withheld.

LG SETA Learnerships

Current-year receipts	10 615 250	-
Conditions met - transferred to revenue	(10 615 250)	-
	-	-

Conditions met (see note 12).

This grant is provided for the work integrated learning programme in implementing the National skills development strategy for the provision of experiential training to further education and training graduates. No funds withheld.

19. Public contributions and donations

Public contributions and donations	319 055	88 731
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20. Interest Received

Interest received - investment	3 239 471	2 768 514
Interest received - current account	670 833	725 737
	3 910 304	3 494 251

21. Other income

Business Licenses	26 162	10 488
Fees for photocopies and subscriptions	22 350	22 678
Tourism Exhibitions	-	71 620
Rates Clearance	34 737	28 014
Tenders	137 106	203 546
Valuation Roll	1 009	3 556
Taxi rank fees	6 667	15 144
Sundry revenue	1 444 091	300 705
	1 672 122	655 751

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Figures in Rand	2015	Restated 2014
22. General expenses		
Advertising	529 618	520 787
Arts and Culture	262 962	64 390
Awareness initiatives	753 130	222 115
Audit committee fees	366 134	251 340
Auditors remuneration	1 169 681	1 029 714
Bank charges	107 544	67 462
Communications and Public Relations	127 869	38 175
Community outreach	534 128	282 488
Learnership Programme	9 981 578	-
Conferences and seminars	134 215	55 570
Consulting and professional fees	7 095 590	9 327 208
Consumables	1 004 634	1 447 740
Education Support	570 729	212 319
Disaster and emergencies	178 740	108 257
Electrification Projects	9 701 827	3 336 173
Pound running costs	1 371	47 486
Electricity	812 963	1 031 830
Free Basic Electricity	2 844 763	1 134 154
Fuel and oil	3 252 108	2 690 152
IT expenses	305 197	417 710
Indigent Support	99 554	28 676
Insurance	691 869	488 656
Job Creation	3 474 704	1 187 231
Library Awareness	2 207	48 455
Library Books	7 716	-
Local Economic Development	240 212	11 293
Marketing	253 495	187 823
Medical expenses	26 720	289
Rentals	912 721	855 363
Pauper Burials	103 500	92 500
Postage and courier	63 106	68 502
Printing and stationery	397 556	251 225
Promotions	134 071	318 587
Public Participation	814 342	438 650
Roadmarkings	52 060	22 449
SMME Fund	5 506 329	2 857 409
Scholar Patrol	59 000	79 600
Security (Guarding of municipal property)	2 200 853	1 316 608
Small Tools	208 126	86 056
Support physically challenged	82 950	-
Sport Promotions	152 053	73 242
Strategic Planning	563 400	621 614
Subscriptions and membership fees	653 991	1 133 592
Telephone and fax	1 745 366	1 326 121
Training	1 075 353	2 396 997
Uniforms	101 101	19 932
Valuation Expense	100 925	287 106
Ward Committee	709 876	647 870
Water	80 976	-
Youth Programme	546 413	344 296
	60 795 326	37 475 212

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23. Employee related costs

Basic	26 796 887	23 093 834
Bonus	2 078 518	1 807 282
Medical aid - company contributions	998 786	829 018
UIF	235 222	215 376
SDL	332 517	288 110
Leave pay provision charge	571 139	1 504 338
Travel, motor car, accommodation, subsistence and other allowances	2 135 775	1 288 133
Overtime payments	985 833	1 149 521
Long-service awards	10 238	103 354
Car allowance	1 981 948	1 532 400
Housing benefits and allowances	369 026	338 711
Protective clothing	281 229	129 040
Bargaining council	12 604	11 170
Provident Fund	1 221 093	1 085 651
Post employee benefits - Pension	3 351 698	2 700 868
	41 362 513	36 076 806

Remuneration of Municipal Manager

Annual Remuneration	783 583	733 093
Car Allowance	145 000	132 000
Performance Bonuses	127 643	119 527
Subsistence and travel reimbursement	12 086	17 415
	1 068 312	1 002 035

Remuneration of Chief Finance Officer

Annual Remuneration	551 471	472 554
Car Allowance	182 400	182 400
Performance Bonuses	70 173	65 711
Subsistence and travel reimbursement	10 160	13 130
Housing and other allowances	60 000	84 623
	874 204	818 418

Remuneration of Director of Social Services

Annual Remuneration	553 967	511 591
Car Allowance	120 000	108 000
Performance Bonuses	70 173	-
Housing and other allowances	120 000	120 000
	864 140	739 591

Remuneration of Director of Technical Services

Annual Remuneration	515 390	438 996
Car Allowance	162 000	156 000
Performance Bonuses	109 158	60 235
Housing and other allowances	116 897	146 017
	903 445	801 248

Remuneration of Director of Corporate Services

Annual Remuneration	144 493	-
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Figures in Rand	2015	Restated 2014
23. Employee related costs (continued)		
Car Allowance	22 500	-
	166 993	-
24. Remuneration of councillors		
Councillors	8 122 456	7 285 583
UIF and SDL	59 765	52 083
	8 182 221	7 337 666
Mayor		
Annual Remuneration	538 871	489 410
Travel allowance	179 624	155 234
Cellphone allowance	20 868	19 115
SDL	6 434	-
	745 797	663 759
Deputy Mayor		
Annual Remuneration	431 097	377 535
Travel allowance	143 699	123 245
Cellphone allowance	20 868	19 115
Subsistence and Travel reimbursements	-	-
SDL	5 055	-
	600 719	519 895
Speaker		
Annual Remuneration	431 097	377 535
Travel allowance	143 699	123 245
Cellphone allowance	20 868	19 115
SDL	4 777	-
	600 441	519 895
Exco		
Annual Remuneration	648 853	817 062
Travel allowance	218 084	251 868
Cellphone allowance	62 604	55 153
Subsistence and Travel reimbursements	9 178	13 571
SDL	6 907	-
	945 626	1 137 654
Councillors		
Annual Remuneration	3 602 346	3 180 248
Travel allowance	1 200 782	971 967
Cellphone allowance	459 096	288 015
Subsistence and Travel reimbursements	34 966	4 150
SDL	36 591	-
	5 333 781	4 444 380

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24. Remuneration of councillors (continued)

In-kind benefits

The Mayor, Deputy Mayor, Speaker and Executive Committee Members are full-time. Each is provided with an office and secretarial support at the cost of the Council.

The Mayor has one full-time bodyguard, full-time driver and the use of a Council owned vehicle.

The Deputy Mayor has the use of a separate Council owned vehicles for official duties.

The Deputy Mayor has one full-time bodyguard and a driver

The Speaker has one full-time driver and the use of a Council owned vehicle .

Accounting Officer's certification of Councillors remuneration

The Accounting Officer certifies that the salaries, allowances and benefits of Councillors as disclosed above are within the upper limits of the framework envisaged in Section 219 of the Constitution read with the Remuneration of Public Office Bearer's

Act.

25. Debt impairment

Debt impairment - Consumer Debt	1 867 816	4 916 775
Bad debts written off	211 990	421 390
	2 079 806	5 338 165

26. Depreciation and amortisation

Property, plant and equipment	13 426 722	9 592 643
Intangible assets	141 710	126 075
	13 568 432	9 718 718

Refer to reconciliation in note 4 and 3 for further details. Depreciation and amortisation is calculated over the useful life of the asset and reflects the realisation of that asset through continued use.

27. Impairment of assets

Impairments

Property, plant and equipment	662 887	211 867
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28. Finance costs

Finance leases	1 680 088	1 121 963
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29. Auditors' remuneration

Fees	1 169 681	1 029 714
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30. Rental of facilities and equipment

Facilities and equipment

Rental of facilities	72 926	32 513
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31. Cash generated from operations

Surplus	30 531 783	48 656 989
Adjustments for:		
Depreciation and amortisation	13 568 463	9 718 718
Profit / Loss on sale of assets and liabilities	9 495 433	156 850
Deemed cost of asset	(57 071)	(89 078)
Fair value adjustments	-	(1 147 557)
Finance costs - Finance leases	1 680 088	1 121 963
Donations received	(319 055)	(88 731)
Impairment deficit	662 887	211 867
Debt impairment	2 079 806	5 338 165
Movements in retirement benefit assets and liabilities	(326 690)	243 766
Movements in provisions	713 761	1 762 063
Changes in working capital:		
Receivables from exchange transactions	1 042 911	(1 959 106)
Consumer debtors	(4 698 626)	(4 928 080)
Other receivables from non-exchange transactions	3 894 526	(4 060 736)
Payables from exchange transactions	(9 962 161)	8 827 721
VAT	2 660 646	(2 528 466)
Unspent conditional grants and receipts	2 821 629	(14 678 728)
	53 788 330	46 557 620

32. Commitments

Authorised capital expenditure

Already contracted for but not provided for

• Property, plant and equipment	25 264 830	9 353 878
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Not yet contracted for and authorised by accounting officer

• Property, plant and equipment	11 039 797	22 319 850
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Total capital commitments

Already contracted for but not provided for	25 264 830	9 353 878
Not yet contracted for and authorised by accounting officer	11 039 797	22 319 850
	36 304 627	31 673 728

Authorised operational expenditure

Already contracted for but not provided for

• Operational Project already contracted for	5 526 582	8 060 168
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Total operational commitments

Already contracted for but not provided for	5 526 582	8 060 168
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The commitments are disclosed net of VAT.

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33. Contingencies

The Municipality is defending a case made by Dumezweni Accountants CC in respect of debt/liquidated demand, which arose in November 2011. The amount of the claim is RNil

The Municipality is defending a claim against SS Hlongwane being for the removal of fencing around the Plaintiff's farm, which arose on February 2013. The amount of the claim is R 100 000

The Municipality is defending a claim against Farrel Inc. Attorneys in respect of legal fees which arose in May 2014. The amount of the claim is R45 019.53 plus interest up to date of final payment.

Contingent assets

No contingent assets exist for the period ended 30 June 2015 (2014:R nil)

34. PRIOR PERIOD ERRORS

The prior year error reclassification was as a result of, the depreciated being recalculated, duplication on assets, conditions met not transferred to revenue, expenditure previously expensed or capitalised, overstatement of debtors (small town grant).

Commitments

During the 2014/15 financial period the municipality discovered that the commitments for the 2013/14 financial period were incorrectly disclosed, an increase of R27 522 021 has been reflected in the restated capital commitments figure.

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34. PRIOR PERIOD ERRORS (continued)

		Previously stated	Reclassification	Correction of error	Restated
Statement of Financial Position					
Receivables from non-exchange transactions	7	8 466 074	-	(4 405 338)	4 060 736
Vat receivables	8	3 142 357	-	2 171 801	5 314 158
Receivables from exchange transactions	9	3 061 223	-	(976 403)	2 084 820
		14 669 654	-	(3 209 940)	11 459 714
Non-current assets					
Property, plant and equipment	3	176 321 767	-	(2 292 766)	174 029 001
		176 321 767	-	(2 292 766)	174 029 001
Unspent conditional grants	12	10 720 270	-	812 026	11 532 296
		10 720 270	-	812 026	11 532 296
Non-current provisions	13	3 623 046	-	776 036	4 399 082
Finance Lease Obligation	11	12 195 884	-	39 468	12 235 352
Net assets					
Accumulated surplus		194 173 832	-	(7 130 238)	187 043 594
		194 173 832	-	(7 130 238)	187 043 594
Service charges		353 995	-	359	354 354
Rendering of services		183 824	-	(178)	183 646
Rental of facilities		4 386	-	28 127	32 513
Interest received		3 529 363	-	(35 112)	3 494 251
Property rates - penalties imposed	16	3 075 820	-	(439)	3 075 381
Government Grants and Subsidies		123 104 868	-	(4 429 100)	118 675 768
Subsidies		1 122 991	-	(28 128)	1 094 863
Employee related costs	23	36 291 261	-	(214 457)	36 076 804
Depreciation and amortisation	26	9 594 427	-	124 291	9 718 718
Finance costs	28	1 116 523	-	5 440	1 121 963
Repairs and maintenance		5 532 246	-	(85 000)	5 447 246
Landfill site		986 026	-	(622 799)	363 227
General expenses	22	37 030 502	-	444 710	37 475 212
Retirement benefits		243 766	-	(89 068)	154 698
		90 794 751	-	(436 883)	90 357 868

Capital commitments: Authorised capital expenditure	Previously disclosed	Correction	Restated
Already contracted: Property, Plant and equipment	3 239 320	6 114 558	9 353 878
Not yet contracted for: Property, Plant and Equipment	912 387	21 407 463	22 319 850
	4 151 707	27 522 021	31 673 728

35. Risk management

Financial risk management

Due to the largely non-trading nature of the activities and the way in which they are financed, municipalities are not exposed to the degree of financial risk faced by business entities.

The municipality's finance function monitors and manages the financial risks relating to the operations of the municipality. These risks include credit risk, liquidity risk, market risk relating to interest rate risk.

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35. Risk management (continued)

Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

The table below analyses the municipality's financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

Other: Lease obligations	4 865 879	3 250 706
Trade and other payables	11 930 812	21 943 427
Maximum liquidity exposure	16 796 691	25 194 133

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Except as detailed below, the carrying amount of financial assets recorded in the Annual Financial Statements, which is net of impairment losses, represents the municipality's maximum exposure to credit risk without taking account of the value of any collateral obtained:.

Financial assets exposed to credit risk at year end were as follows:

Financial instrument	2015	2014
Cash and cash equivalents	45 227 297	42 798 188
Trade and other receivables	11 930 812	16 535 187

Market risk

Interest rate risk

As the municipality has no significant interest-bearing assets, the municipality's income and operating cash flows are substantially independent of changes in market interest rates.

cash and cash equivalents	45 227 297	42 789 188
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Price risk

Due to legislative restrictions, the municipality does not trade these investments.

36. Events after the reporting date

No events after the reporting date have occurred:

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37. Fruitless and wasteful expenditure

Reconciliation of fruitless and wasteful expenditure

Opening balances	-	-
Interest and penalties	128 729	7 588
Payroll fictitious employees	776 395	-
Written off by Council	(114 185)	(7 588)
	790 939	-

Incidents - 2014/ 15

Interest and Penalties

The fruitless and wasteful expenditure in the amount of R 114 185 related to interest charged by Eksom, Telkom, Coral Lagoon Investments and Wesbank for late payments. An amount of R14 543.85 refers to recognition of Sars assessment - Vat incorrectly claimed on entertainment expenditure resulted on interest and penalties on assessment conducted by Sars in respect of August and October invoices. An amount of R776 395 is a result of misconduct by a former employee, case was opened against employee for payment to ghost employees and the case is currently under investigation.

38. Irregular expenditure

Opening balance	13 821 849	13 821 849
Contracts	17 076	2 501 774
Tenders	2 911 519	-
Quotation	5 799	225 586
In service of the state	-	3 413 274
Written off by Council	(2 934 394)	(6 140 634)
	13 821 849	13 821 849

Incident 2014/15

Opening balance

This relates to forensic investigations related to prior years 2007/2008, 2008/2009 and 2009/2010. The reports that have been concluded have been reported to the South African Police Services and included in irregular expenditure. The amounts are yet to be written off by Council, pending the outcome of the court cases.

Contracts

This relates to expenditure incurred due to the inappropriate extension of a contract, relating to the rental of hygiene services as a sole supplier (R17 076). Another expenditure for an amount of R97 127.10 was a result of payment to Coral lagoon for rental of building. This amount has been written off by Council.

Quotation

This relates to expenditure that was incurred without obtaining three quotations. These relates to section 36, Deviations. Expenditure also related to inappropriate procuring of service with Ilanga Newspaper due to non existence of contract and the advert was placed directly to the Newspaper

Tender

The amount relating to tender is relating to SCM manipulation by former employee, there were no financial losses incurred by the Municipality.

Investigations in progress

The forensic investigation regarding the missing documents in respect of the 2007/2008, 2008/2009 and 2009/2010 financial periods continues. The reports that have been concluded have been reported to the South African Police Services and included in irregular expenditure.

A new investigation commenced towards end of financial regarding a misconduct by former employee regarding SCM allegations and the investigation is in progress.

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39. Additional disclosure in terms of Municipal Finance Management Act

Audit fees

Opening balance	4 709	49 844
Current year subscription / fee	1 169 680	1 022 020
Amount paid - current year	(1 174 389)	(1 067 155)
Amount paid - previous years	-	-
	<u>-</u>	<u>4 709</u>

PAYE, SDL and UIF

Opening balance	-	-
Current year subscription / fee	6 209 091	5 232 188
Amount paid - current year	(6 209 091)	(5 232 188)
	<u>-</u>	<u>-</u>

Pension and Medical Aid Deductions

Opening balance	-	-
Current year subscription / fee	8 201 186	4 491 217
Amount paid - current year	(8 201 186)	(4 491 217)
	<u>-</u>	<u>-</u>

VAT

VAT receivable	<u>2 653 512</u>	<u>5 314 158</u>
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VAT output payables and VAT input receivables are shown in note 8.

All VAT returns have been submitted by the due date throughout the year.

Councillors' arrear consumer accounts

No councillors were in arrears as at 30 June 2015.

During the year the following Councillors' had arrear accounts outstanding for more than 90 days.

Okhahlamba Local Municipality

(Registration number KZN 235)

Financial Statements for the year ended 30 June 2015

Notes to the Financial Statements

Figures in Rand	2015	Restated 2014
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39. Additional disclosure in terms of Municipal Finance Management Act (continued)

Supply chain management regulations

Quotations: In terms of section 36 of the Municipal Supply Chain Management Regulations any deviation from the Supply Chain Management Policy needs to be approved/condoned by the Municipal Manager and noted by Council. These deviations refer to the instances as stipulated in the regulations and relates mainly to emergencies and instances where it was impossible to follow SCM processes..

Bids: In terms of regulation 36 of the Municipality Supply Chain Management Regulation, any deviations from Supply Chain Management Policy has been approved by the Municipal Manager and noted by the Council.

In terms of the regulation 45 of the Municipal Supply Chain Management Regulations, the notes to the annual financial statements of a municipality must disclose particulars of any award of more than R 2000 to a person who is a spouse, child or parent of a person in the service of state, or has been in the service of state in the previous 12 months. The municipality is currently limited to the issuing of declaration forms (MBD4) and does have a system / national database to identify such suppliers.

Incident

Quotations	2 110 926	1 695 399
Bids not advertised for more than 30 days	-	7 315 236
	2 110 926	9 010 635